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SUBJECT: CROATIA SHARPENS REGULATORY GUILLOTINE

¶1. Summary: The Croatian government has undertaken an ambitious regulatory reform campaign aimed at easing bureaucratic impediments for business and improving the investment climate. The program, supported by USAID, is known as the "regulatory guillotine." Its aim is to create an inventory of all existing regulations that affect business and subject them to a period of government and public scrutiny and comment, following which only those regulations deemed worthy of maintaining will remain in effect, while all others will be declared null and void. Nobody is certain just how many regulations there are, but with a flare for bureaucracy dating back to the Austro-Hungarian period, the "guillotine" will have its work cut out for it in Croatia. End Summary.

¶2. With the approval of Prime Minister Sanader and the support of USAID, Croatia has embarked on an effort to streamline its hefty body of government regulation. The aim of the program, known as the "regulatory guillotine," or "hitro-rez (the quick cut)" in its local version, is to eliminate unnecessary and overly-burdensome regulations that hinder the efficient operation of businesses and the economy. In taking this step, Sanader is determined to improve Croatia's chronic low-ranking in international economic competitiveness reports and send a strong signal to foreign investors that the GOC is serious about economic reform.

¶3. Hitro-rez received formal GOC approval in September and has since hired a staff of 12 and leased office space in Zagreb. As an organization, it has a strong mandate and a short lifespan, so the time line for its work is relatively short. Following the government decision initiating the process, ministries and government agencies were given until December 1 to submit lists of regulations for review. The ministries themselves will then have until January 15 to submit preliminary opinions as to which regulations are necessary and which should be allowed to expire. The hitro-rez staff itself has an independent list of regulations based on previous work to serve as a check on the ministries.

¶4. One of the key elements of the program is transparency and public involvement. The director told us that all regulations and comments will be available on the internet, an element equally aimed at increasing the pressure on the ministries to cooperate. Nobody knows exactly how many regulations there are in Croatia, except that there are too many. Hitro-rez estimates that there are anywhere from 1,500 to 15,000.

¶5. After the ministries have a chance to review the regulations, there will be a private sector comment period until March 1. The process ends with a final review lasting until June 1. Every regulation will have to pass some basic tests: Is it necessary? Is it legal? Is it business friendly? Is it WTO compliant? Is it in keeping with EU law and directives? Once the final list is approved by the Government, any identified regulations that do not meet the three tests will become null and void. The remainder will then be codified in an electronic registry, available on-line and updated as necessary and will be a single reference of all extant regulations

affecting business in Croatia. The hope of Hitro-rez is that, in increasing transparency, the registry will reduce opportunities for corruption.

¶6. Comment: It is still unclear what interest groups will emerge to protect their fiefdoms from this cruel cut, although notaries public are likely candidates. Nevertheless, even if the project is successful in eliminating only a small fraction of Croatia's onerous and Byzantine regulations, its impact on the business climate is likely to be substantial and positive. End Comment.

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